

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 01-347

STATE AGENCY: State Board of Tax Commissioners

DATE PREPARED: Dec 17, 2001

DATE RECEIVED: Nov 20, 2001

FISCAL ANALYST: Bob Sigalow

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Digest of Proposed Rule: This proposed rule adds 50 IAC 5.2 for the assessment of public utility-owned property. The proposal also repeals the current rule regarding the assessment of utility personal property.

The State Tax Board is required by IC 6-1.1-31-1 to adopt rules concerning the assessment of tangible property.

Governmental Entities: State: This rule places no unfunded mandates upon state government.

The increased tax liability of residential property tax payers as a result of the proposed utility personal property assessment rule will result in an increase in the state's liability for Homestead Credit. Under current law, the Homestead Credit is set at 10% through CY 2003. It is scheduled to be reduced from its current 10% to 4% beginning in CY 2004. Homestead Credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any Homestead Credit expense would ultimately come from the General Fund.

Under this proposed rule, the increase in the cost of the Homestead Credit which is currently set at 10% in CY 2003 is estimated at \$430,000. The increase in expenditures for CY 2004 when the Homestead Credit is set at 4% is estimated to cost \$182,000.

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities:

The regulated entities affected by this proposed rule are the owners of taxable real and personal property in the state of Indiana.

This proposed rule creates assessment regulations to be used to value utility personal property beginning with the March 1, 2002, assessment date. Changes to the assessed value of utility personal property will cause the tax rate for all property types to change, thereby affecting the tax liabilities of all property classes. This proposed rule, in concert with the newly adopted rule on real property assessments (50 IAC 2.3) and the newly adopted rule on personal property assessments (50 IAC 4.3), would redefine the distribution of the property tax burden among the different classes of property tax payers.

The proposed utility personal property rule differs from the existing rule in four significant ways. The proposed rule eliminates the 30% floor for depreciable property, assesses construction in process at 87% of cost rather than 10%, eliminates the credit for gross addition, and eliminates the 35% valuation adjustment for inventories.

An analysis was performed by Dr. Larry DeBoer of Purdue University to determine how the proposed rule compares to the current rule and, specifically, how these changes affect the relative tax burdens on the various classes of property.

The following table shows the anticipated percentage change in real and personal property tax liabilities for owners of agricultural, residential, business, and utility property. **This table represents the change in liabilities when considering only this proposed rule. The base includes the newly adopted real property and non-utility personal property assessment rules.** The first item in the table shows the change for the average taxpayer across the state in each of the four property classes. For example, the 0.2% change for the average residential taxpayer shows the amount of increase in the average homeowner's tax bill when utility personal property is assessed under the proposed rule. The average and median tax liability changes of the 92 counties are shown. The table also shows the maximum and minimum county percentage change in tax liability.

Percentage Change in Real and Personal Property Tax Liabilities (Proposed Utility Personal Property Rule Only)				
Class of Property	Agricultural	Residential	Business	Utility
Average Taxpayer	0.2%	0.2%	0.2%	-4.5%
Average County	0.2%	0.1%	0.1%	-4.5%
Median County	0.2%	0.1%	0.1%	-5.6%
Maximum County	0.7%	0.9%	0.8%	8.9%
Minimum County	-0.5%	-0.3%	-0.5%	-7.9%

To better illustrate the effects of all of the property assessment changes that will take effect on March 1, 2002, if adopted, the following table also shows the overall percentage change in CY 2003 property tax liabilities under the proposed utility personal property rule *and* the newly adopted real property and non-utility personal property assessment rules. **However, the proposed utility personal property assessment rule under review does NOT affect real property and non-utility personal property assessments.**

Percentage Change in Real and Personal Property Tax Liabilities (Illustrated With Utility Personal Property, Non-Utility Personal Property, and Real Property Assessment Changes)				
Class of Property	Agricultural	Residential	Business	Utility
Average Taxpayer	3.4%	14.3%	-7.1%	-35.6%
Average County	3.8%	9.5%	-7.8%	-35.2%
Median County	5.3%	9.5%	-7.8%	-35.8%
Maximum County	27.0%	48.9%	8.3%	-10.7%
Minimum County	-43.8%	-33.1%	-20.3%	-51.4%

The CY 2003 statewide total net property tax levy (after PTRC and Homestead Credits) is estimated to be approximately \$5.48 B. The average taxpayer percentage changes for each property class from the DeBoer study were applied to each class's share of the \$5.48 B total levy in order to estimate the tax dollar impact of the assessment of utility personal property under this proposed rule. The table below restates the average taxpayer percentage change and also shows the total dollar impact for each property class. An increase in Homestead Credit payments account for a portion of the change in residential property tax. **This table represents the change in liabilities when considering only this proposed utility personal property assessment rule.**

CY 2003 Statewide Property Tax Impact Of Proposed Utility Personal Property Assessment Rule (Base Includes the New Real and Non-Utility Personal Property Assessment Rules)		
Class of Property	% Change	Net Tax Change (\$M)
Agricultural	0.2%	\$ 0.8
Residential	0.2%	4.1
Business	0.2%	5.2
Utility	-4.5%	(9.7)
Less Amount Paid by State Homestead Credit	-0.2%	(0.4)
Total		\$ 0.0

To better illustrate the effects of all of the property assessment changes that will take effect on March 1, 2002, if adopted, the following table also shows the overall percentage change and anticipated dollar

impact in real and personal property tax liabilities in CY 2003 under the proposed utility personal property rule *and* the newly adopted real property and non-utility personal property assessment rules. **However, the proposed utility personal property assessment rule under review does NOT affect real property and non-utility personal property assessments.**

CY 2003 Statewide Property Tax Impact Of Proposed Utility Personal Property Assessment Rule And Newly Adopted Real Property and Non-Utility Personal Property Assessment Rules		
Class of Property	% Change	Net Tax Change (\$M)
Agricultural	3.4%	\$ 13.3
Residential	14.3%	310.6
Business	-7.1%	(182.2)
Utility	-35.6%	(110.9)
Less Amount Paid by State Homestead Credit	14.4%	(30.8)
Total		\$ 0.0

A detailed description of the analysis conducted by Purdue University's Dr. Larry DeBoer, including property tax shifts by county is available from the Legislative Services Agency.

Information Sources: Dr. Larry DeBoer, Purdue University.